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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000823

SIPDIS

DEPT FOR NEA/ARP

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TAGS: ENRG PREL PARM MARR KNNP KU IR

SUBJECT: MINISTER OF OIL, ELECTRICITY AND WATER DISCUSSES 4TH REFINERY, INCREASED OIL PRODUCTION; WELCOMES U.S. POWER SECTOR INVESTMENT

REF: KUWAIT 814

Classified By: THE AMBASSADOR FOR REASONS 1.5 (b) and (d)

¶1. (SBU) Summary: During their July 16 introductory meeting, Kuwait's Minister of Oil, Electricity and Water, Mohamad Abdullah Al-Olaime told Ambassador he was optimistic that Kuwait's USD 14 billion in long delayed contracts would be signed soon for the 4th Oil Refinery, which will be the Middle East's largest. The Minister expressed confidence that publicly stated goals for increasing Kuwait's oil production to 4 million (m)/barrels per day (bpd) by 2020 are realistic, and indicated concern for the security of the oil market, given the focus on alternative energy sources. The U.S.-educated Al-Olaime, previously official spokesman of Kuwaiti Islam Constitutional Movement, was relaxed and cordial, and welcomed U.S. quality company involvement in developing both oil refining and power sectors. End Summary.

#### Increasing Production and Refining Capacity

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¶2. (C) Al-Olaime estimated that Kuwait would be investing some USD 55 billion over the next five years to expand the country's oil production capacity from current levels of 2.6m/bpd to 3m/bpd by the end of 2009, 3.5m/bpd by 2015 and 4m/bpd by 2020. Al-Olaime acknowledged Kuwait's concerns over long-term demand and said the GOK is exploring solar energy alternatives with a Japanese company (NFI) and nuclear energy with some non-specified non-U.S. companies. Here, al-Olaime mentioned the earlier visit this year of U.S. Special Envoy Jackie Wolcott and the Nuclear Energy Delegation and regretted that he'd been unable to attend her meetings with his staff.

¶3. (SBU) The minister expressed satisfaction with the selection of U.S. engineering firm Fluor as both Project Management Contract (PMC) for the USD 14 billion project and for the Engineering Procurement Contract (EPC) management for the third of five packages. The third package is for Utilities and Offsite (U&O) management and the selection of Fluor has generated some controversy locally since some view the dual role for overall management and U&O management as a conflict of interest. (Comment: The refinery has been delayed for a long time, which has generated frequent negative coverage in the Kuwait press. Fluor has, for 45 years, been involved in Kuwait's oil patch and consequently is a company locals "love to hate." Commercial staff observe that most Kuwait companies would rather represent non-US companies, in order to garner larger commissions. End Comment.) "We are transparent in our process, and Fluor is one of the best", Al-Olaime said. The Minister pointed to the bottleneck in refining capability, and said that the 4th Refinery will be the largest in the Middle East.

Subsidized Fuel to US Military Will Continue

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¶4. (C) Al-Olaime referred to an existing arrangement whereby the GOK makes available to U.S. military forces here 860K gallons per day of jet fuel at highly subsidized cost, less than half of market value. The Ambassador expressed appreciation for this arrangement and alluded to the fact that a communications glitch between KPC and DESC had resulted in some confusion over pricing for the period January - April this year, but that hopefully things had been worked out to everyone's satisfaction. Al-Olaime assured the Ambassador that the arrangement would continue indefinitely, "as long as it was necessary."

Seeking U.S. Participation in Energy Sector

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¶5. (SBU) Asked about the electricity sector, the Minister expressed interest in having more American firms involved in developing Kuwait's capacity to produce electricity; GE has provided generators and turbines, but few other U.S. firms have been involved to date. The Ambassador noted she'd visited GE Energy in Houston prior to coming to post and said the Embassy would attempt to attract more U.S. companies to engage in the power sector, citing opportunities such as the annual BCIU-sponsored tour to get the word out. (Comment: Commercial Section will further use its domestic network to see if they can interest other firms. Kuwait, however, faces stiff competition from other GCC countries, where projects move faster than in the state. Upon his appointment as Minister of Electricity and Water in 2007, Al-Olaime immediately faced an impending electricity crisis for summer, when air conditioners run non-stop to combat 120-degree

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temperatures. By all accounts he jumped in with both feet, and successfully carried Kuwait through the summer without major power outages. Post estimates that Kuwait lags 4-10 years behind in building planned power stations. End Comment.)

Iran and Energy Flows

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¶6. (C) The Minister expressed support for Under Secretary Burns' announced participation in P5 1 meetings with Iranian officials in Geneva, and sought reassurances the U.S. would act swiftly to prevent Iran from cutting off oil flows through the Gulf and Strait of Hormuz. (Note: Following their meeting, Ambassador heard from a confidential source that the Kuwaitis believe they have discovered a significant new gas deposit in their Dorra field. According to this source, the GOK is reluctant to announce or exploit this field in the current volatile environment. End Note.)

¶7. Bio Note: The extremely cordial Al-Olaime (alternate: Al-Elaim) received his BS degree in industrial engineering from North Carolina Agricultural and Technical State University in 1982, and is pursuing an advanced degree in the UK. He became Minister of Electricity and Water in 2006 and in March 2007 became Acting Oil Minister, which is traditionally a separate job. He was a Member of Parliament for three years and held several positions with Kuwait's oil companies from 1986-1989. Prior to his ministerial appointments he was also official Spokesman of the Islamic Constitutional Movement, the political branch for the Kuwaiti Muslim Brotherhood. He is 48 years of age and has 3 daughters and 3 sons.

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